

A photograph showing four people in a professional setting. A woman with curly hair is shaking hands with a woman in a polka-dot shirt, who is also shaking hands with a man. A woman with long blonde hair is partially visible on the left. They are all smiling and looking towards the center.

Types of Financial Advisors – Why it pays to know the difference

This may come as a surprise: There are hundreds of thousands of financial advisors in the United States. But only a relatively small percentage are bound by law to give you advice that's in your best interest. They are known as registered investment advisors (RIAs) and trustees, and they adhere to the fiduciary standard (see box at right).

What about all the rest? Most companies and individuals that call themselves financial advisors — including the major Wall Street firms — are actually commission-based salespeople. Their pay is determined mainly by the quantity and type of financial products they sell. Their legal obligation to you: investments that are suitable (known as the Suitability Rule). Beware, however: what is “suitable” can be against your best interest.

That's because when it comes to investment advice, broker/dealers may be biased by incentives. For example, mutual funds sometimes charge sales fees, which go to the broker if she/he gets you to invest in that fund.

EXAMPLE: Say a broker recommends to you a global asset allocation fund that charges an upfront sales fee of 4.75%¹ — in addition to the 1.2%¹ in fund expenses each year. Both fees will be paid by you, and they will put you at a disadvantage compared to a similar-performing, lower-cost fund. Still, that pricey fund can qualify as suitable for you, even though it's not really in your best interest.

Things to Ask and Consider

Registered investment advisors (RIAs) do not work on commission or other sales incentives. They are paid solely by you, and they are legally obligated to give you advice that's actually in your best interest. Because many of the fees charged by broker/dealers and other non-RIA advisors are not fully disclosed to clients, it may seem that you are being charged less. However, look deeper and compare.

¹For global asset allocation funds that charge a sales fee, the average sales fee is 4.75% and average annual expense fee is 1.2%, per Morningstar

Fiduciary Standard = Doing What Is Best for You

The notion of fiduciary duty — doing what is best for the client — dates back nearly a thousand years to English Law; it was first applied to property ownership and trusts.

In the US today, only trustees and registered investment advisors are bound to the fiduciary standard. All other financial advisors are NOT required by law to do what is in the client's best interest.

Ask about:

- What is the total amount you are paying in fees, including sales fees and other incentives?
- Will you be given unbiased, strategic planning for your entire financial life?
- Will all the advice and guidance you receive be required by law to be in your best interest?

What if you do not need unbiased investment advice and financial planning? In that case, a broker/dealer can be cost-effective way to buy and hold individual stocks, bonds and low-fee mutual funds.

Know The Difference

To this day, many non-fiduciary financial advisors continue to fight against federal regulations that would require them to act in the best interest of their clients. The result: you are left to educate yourself.

The chart below summarizes the main differences between these two major types of financial advisors.

	Fiduciary Registered Investment Advisors (RIAs)	Non-Fiduciary Stockbrokers/Others ²
Legal Obligation to You	Fiduciary Duty: Advice that's "100% in your best interest" (same fiduciary standard that applies to trust companies)	Suitability Rule: Advice that is "suitable"
Regulator	US Government — The Securities & Exchange Commission (SEC) ³	Industry group — Financial Industry Regulatory Authority (FINRA)
How They Get Paid	Typically a set fee — hourly, fixed or a percent of assets often between 1% and 1.5% of the assets they are managing for you	Commissions, trading fees, and other types of incentives on each of the investments they recommend to you
Fee Disclosure	Required upfront to tell you what your fee will be and how it will be calculated	Not required to tell you how much you are paying in fees
Where Your Money is Actually Held	Third-party custodian that is usually independent of the RIA, providing an extra layer of oversight	Varies. Could be held by the financial advisor and/or a third party
Level of Service	Typically includes investment management, financial planning and possibly trust and estate planning	Provide some advice, but this is often tied to specific investment products, such as mutual funds, annuities or insurance policies

NOTE: Some advisors operate as "dual-registrants"; part of their operation is an RIA and part broker/dealer.

² This includes bank representatives, professional financial planners, insurance agents, and/or any professional selling financial products.

³ RIAs are regulated by the states in which they operate if their assets under management are under \$100 million.

“Best Interest” Fully Defined

Laird Norton Wealth Management is both a trust company and a registered investment advisor (RIA). In all the work we do for clients, we are legally required to act in our clients' best interests. We recommend investments only if we are convinced such investments will work best for you, in terms of costs, taxes, return and risk. Our definition of acting in the client's best interest also includes:

- Managing risk not only in your investment portfolio but across your entire asset base;
- Budgeting and income sustainability analysis so you know what kind of spending your investment portfolio can support;
- Minimizing investment-related income taxes;
- Making sure your investments are aligned with your financial and estate plans; and
- Making ongoing adjustments as your finances and your life change.

Laird Norton Wealth Management provides STRATEGIC Investment Management, IN-DEPTH Financial & Retirement Planning, EXPERT Trust and Estate Planning.

Learn More: To find out how Laird Norton Wealth Management can help manage your finances so you move forward with confidence, call or email us to set up an appointment today.

 800.426.5105  hello@lnwm.com